1999 Country Reports on Economic Policy and Trade Practices
Released by the Bureau of Economic and Business Affairs
U.S. Department of State, March 2000

GUATEMALA

Key Economic Indicators 1/

(Millions of U.S. Dollars unless otherwise indicated)

	1997	1998	1999
Income, Production and Employment:			
Nominal GDP 2/	17,427	19,016	17,826
Real GDP Growth (pct)	4.3	4.7	3.5
GDP by Sector (pct):			
Agriculture	24	24	23
Manufacturing	21	21	21
Services	47	47	47
Government	8	8	8
Per Capita GDP (US$) 2/	1,603	1,793	1,635
Labor Force (000s) 3/	3,320	3,416	4,208
Unemployment Rate (pct) 4/	5.2	5.2	5.2
Money and Prices (annual percentage growth):			
Money Supply Growth (M2)	21.2	14.4	10.0
Consumer Price Inflation 5/	7.1	7.4	5.0
Exchange Rate (Quetzal/US$ annual average)			
Financial Market Rate (1999 data is Unofficial Embassy estimate)	6.10	6.40	7.50
Balance of Payments and Trade:			
Total Exports FOB 6/	2,391	2,562	2,262
Exports to U.S.	840	837	742
Total Imports CIF 6/	3,852	4,651	4,409
Imports from U.S.	1,585	1,931	1,767
Trade Balance 6/	-1461	-2,089	-2,147
Balance with U.S. 6/	-745	-1,094	-1,025
External Public Debt 7/	2,200	2,368	2,600
Fiscal Deficit/GDP (pct) 7/	1.0	2.9	3.0
Current Account Deficit/GDP (pct) 7/	3.6	5.4	5.4
Debt Service Payments/GDP (pct) 7/	2.4	3.0	2.4
Gold and Foreign Exchange Reserves			

(Millions Net) 7/	1100	1,400	1,100
Aid from U.S.	64	77	
Aid from Other Sources	N/A	N/A	N/A

1/ 1999 figures are all estimates based on available data in October.

2/ Depreciation of local currency results in apparent decline in GDP expressed in U.S.Dollars.

3/ 1999 Labor Force Data from 1999 Survey of Family Income and Expenditures

4/ Does not reflect estimated 40 to 50 percent underemployment.

5/ The official CPI is not regarded as an accurate measure of price movements

6/Merchandise trade data from Guatemalan customs and central bank. Trade data does not include approximately $250 million in value added by the apparel assembly industry.

7/ Data from the Guatemalan government's preliminary 2000 budget projection and Guatemala's Central Bank.

1. General Policy Framework

Since assuming office in January 1996, the Arzu administration and the National Advancement Party (PAN), which has a majority in the legislature, have worked to implement a program of economic liberalization and to modernize the state. Signing of the final Peace Accord in December 1996, which ended Guatemala's 36-year armed internal conflict, removed a major obstacle to foreign investment. Among the government's remaining challenges, however, are the need to address the fiscal deficit, the elimination of bureaucratic inefficiency as well as private and government corruption, development of physical infrastructure and human capital, improvement in internal security and justice, and designing policies that promote sustained macroeconomic stability.

Guatemala's economy, the largest in Central America, is generally open, though the lack of transparency and bureaucratic complexity often make it difficult for foreigners to compete on an equal footing. For the last three years, real GDP growth has averaged about 4.0 percent, and population growth about 2.9 percent annually. Insufficient investment in education, health care, telecommunications, and transportation constrain the more rapid development of Guatemala's economy. The telecommunications sector and key elements of the electricity industry have been privatized and the government has awarded concessions for operation of the railroad and the postal service. Concessions to expand and operate the country's two state-owned sea ports and two international airports will be offered early in 2000. In July 1995, Guatemala became a member of the WTO.

Agriculture and commerce are the dominant economic activities, each contributing approximately 25 percent of GDP; manufacturing accounts for 15 percent of GDP. The agricultural sector accounts for two thirds of exports and about 40 percent of all employment, though there is much underemployment in all sectors. Activity in the agricultural sector is concentrated in production of the traditional products of coffee, sugar, and bananas. Non-traditional agricultural exports, e.g., specialty vegetables and fruits, berries, shrimp, and ornamental plants and flowers, account for an increasing share of export revenues. Other non-traditional industries that have experienced recent growth and have favorable prospects are apparel assembly for export and tourism. Remittances from abroad, which the Guatemalan Government estimates at between $450-500 million per year, are a significant source of foreign exchange.

Though tax revenues have historically been less than 8 percent of GDP, the government is committed to increasing tax revenues to 12 percent of GDP by the year 2002 to fund social and economic development projects related to the Peace Accords. Tax revenues in 1999 will nonetheless fall short of 10 percent of GDP. Beginning in 1994, the central bank (Bank of Guatemala) was prohibited from financing the government’s budget deficit, forcing the government to issue treasury bonds, most of which were short-term. In 1996, the government began issuing securities for longer terms (up to 5 and 10 years), including several dollar-denominated issues placed on the international market at lower rates of interest than offered on local currency denominated bonds.

Several placements of dollar-denominated government securities were issued in 1999 to finance part of the budget deficit. The central bank and treasury also issued short-term notes to absorb excess liquidity and reduce consumption demand. The resulting higher interest rates curtailed capital flight and relieved some of the pressure on the foreign exchange market, but relatively high commercial bank lending rates have discouraged productive investment and retarded growth. However, despite increased reliance upon dollar-denominated instruments that carry lower coupon rates than notes denominated in local currency, debt service costs will increase in 2000 as a result of both higher debt and the depreciation of the local currency.

2. Exchange Rate Policy

Guatemala's trade deficit and capital flight have put pressure on the foreign exchange market. Though Guatemala sold an additional $400 million in foreign reserves in 1999, the local currency still depreciated by approximately 13 percent. Access to foreign exchange is unrestricted and there are no reports of foreign exchange shortages.

Though the government in 1998 passed legislation to permit banks and financial institutions to offer dollar-denominated accounts, enabling regulations have not been issued. A number of local banks currently offer dollar denominated accounts in which the funds are actually held in offshore accounts.

3. Structural Policies

As part of the Peace Process, the government is committed to increasing spending on social welfare programs, infrastructure expansion, and economic development programs. Though much of the financing for this additional spending will come from grants and loans provided by the international donor community, Guatemala must generate significant internal resources to complement foreign grants and lending to fund these expenditures. The recently created Tax Administration Superintendency has increased compliance, but it is highly doubtful that revenue targets can be met without broadening the tax base or introducing new taxes.

Ninety percent of the government's current income is from taxes. Indirect taxes, primarily the value-added tax and duties, account for 80 percent of all tax revenues. Personal income taxes account for less than two percent of all tax revenues. Guatemala received over $500 million from the sale of the state-owned electricity company in 1998 and will receive an additional $500 million over the next three years from the 1998 sale of the telephone company. Though these funds were earmarked for retirement of public debt and for investment in infrastructure, no appropriations or expenditures have been made thus far.

4. Debt Management Policies

Guatemala's 1999 budget will be in deficit by about 2.9 percent of GDP. Despite inclusion of extraordinary capital income from the sale of state-owned assets, the FY 2000 budget projects a deficit of approximately $511 million, or approximately 3.0 percent of GDP. This deficit will be financed through a combination of internal borrowing, foreign borrowing, and loans from foreign governments and international lending agencies. Guatemala's total public debt at the end of 1999 will be approximately $3.4 billion, of which $900 million is internally held and $2.5 billion is foreign debt.

Guatemala has successfully converted some domestic debt from short term, high-interest instruments to longer-term, lower interest debt, including dollar-denominated commercial debt. The FY 2000 budget calls for appropriation of $410 million for debt service. Guatemala is current in its payments on both U.S. and other foreign debt.

5. Aid

Total foreign donations anticipated in the 2000 budget are approximately $54 million. However, the budget only includes funds already pledged and programmed. Actual financial assistance is usually significantly higher than as stated in the preliminary budget document.

6. Significant Barriers to U.S. Exports

Guatemala applies the common external tariff schedule of the Central American Common Market, which has a range of from zero to 15 percent for nearly all agricultural and industrial goods. Exceptions include milk products other than powdered milk, on which tariffs were sharply increased in 1999, and agricultural commodity imports in excess of their Tariff Rate Quotas (TRQ).

Guatemala, in compliance with its WTO obligations, created TRQs for rice, corn, wheat and wheat flour, apples, pears, poultry and beef. The Ministry of Economy has implemented a new import policy for poultry that enlarges the TRQ to the level of Guatemala's final WTO commitment and reduces the in-quota tariff. However, all poultry parts are valued at a minimum of 56 cents/pound for customs purposes, significantly increasing the effective tariff rate and the cost of imported poultry products. Guatemala's current import tariff rates for agricultural products are below the WTO tariff bindings.

Imported processed foods must be registered with the Ministry of Health by each individual importer. However, importers have the option of joining an association of importers and paying a fee for the use of other members' registrations. Processed foods must also be labeled in Spanish. Enforcement of this requirement has been lax, though compliance is increasing. Full enforcement could significantly impact imports from the United States.

Sanitary and phytosanitary licenses are required for all imports of animal origin, and plants and vegetables. Inspection of the processing plant in the country of origin, at the importers' expense, is technically required for the license; however, implementation has been uneven, limiting trade disruption.

Importers should be aware that manifests require consular certification, an administrative process that can be time consuming. Delays in obtaining certification have resulted in some losses to shipments of perishables. Guatemala has also contracted with a private import verification service to assess the value of exports to Guatemala, a process that will impose additional administrative procedures on U.S. exporters. Imports are not generally subject to non-tariff trade barriers, though arbitrary customs valuation and excessive bureaucracy occasionally create delays and complicate the importation process.

Some restrictions remain on foreign investment, but foreign investors generally receive national treatment. Subsurface minerals, petroleum, and other resources are property of the state and concessions are typically granted in the form of production-sharing contracts.

Surface transportation is limited to companies with at least 51 percent Guatemalan ownership. Foreign firms are barred from directly selling insurance or providing legal, accounting or other licensed professional services. This hurdle can be overcome by establishing a locally incorporated subsidiary or through a correspondent relationship with a local firm. Most of the major U.S. accounting firms, for example, are represented through one of these methods.

7. Export Subsidies Policies

There are no export subsidies.

8. Protection of U.S. Intellectual Property

Guatemala belongs to the World Trade Organization (WTO) and the World Intellectual Property Organization (WIPO). It is also a signatory to the Paris Convention, Bern Convention, Rome Convention, Phonograms Convention, and the Nairobi Treaty. Nevertheless, in 1999, the U.S. Trade Representative placed Guatemala on the “Special 301” Priority Watch List.

The protection provided to intellectual property rights (IPR) holders is inadequate. Enforcement mechanisms are generally lacking, a poorly trained judiciary is slow to provide relief, and penalties are insufficient to dissuade IPR infringement. Although Guatemala passed a new Copyright Law in 1998, there have been no prosecutions. Local cable television companies have reduced their broadcasts of unauthorized programming considerably, and video piracy has diminished, but U.S. industry still suffers significant losses. Piracy, reproduction, and sale of computer software programs are also common.

Patents: Guatemala’s Patent Law is outdated. It does not protect mathematical methods, living organisms, commercial plans, surgical, therapeutic or diagnostic methods, or chemical compounds or compositions. Protection is limited to 15 years (10 years for the production of food, beverages, medicines, and agrochemicals), and is subject to compulsory licensing provisions and local exploitation requirements. Patent rights do not extend to any action executed in the pursuit of education, research, experimentation, or investigation. Patent rights do not preclude the importation of counterfeit goods unless the product is being produced in Guatemala. Protection lapses six years from the date of the patent if the product is not being produced locally.

Trademarks: Guatemalan law does not provide sufficient protection against counterfeiting or misuse of trademarks, and the right to exclusive use is granted to the first to file. There is no requirement for use, nor any cancellation process for non-use. Firms whose trademarks have been registered by third parties often complain that legal remedies are slow and inadequate. Businesses whose trademark has been registered by another party are often forced either to buy out that party or pay a fee for use.

The lack of protection of intellectual property rights is a significant barrier to trade and investment. Industry estimates that 85 percent of all software used in Guatemala, including applications used by government agencies, are unlicensed or unauthorized copies. The lack of protection for well-known trademarks denies access to the Guatemalan market by legitimate rights-holders and is a disincentive to investment.

9. Worker Rights

a. The Right of Association: This right is guaranteed by the constitution, though less than eight percent of the labor force is unionized. There are more than 1300 unions, the majority of which are private sector unions. The Ministry of Labor has significantly simplified and accelerated the process of obtaining legal authorization to form a union. This procedure now takes 23 working days. Significant changes were made in 1993 to modernize the Labor Code. In addition, the process for resolving "workplace" disputes has been decentralized with the opening of 21 branch offices of labor inspectors.

b. The Right to Organize and Bargain Collectively: The Labor Code allows collective bargaining if at least 25 percent of a company's employees are union members. Anti-union practices, including discharging workers for attempting to organize a union, are legally forbidden. However, despite a major increase in the number of labor inspectors and inspections, enforcement of labor laws depends on an overloaded and inefficient labor court system. As a result, violations of worker rights are not always punished. The labor movement remains fractious. A widespread, historical distrust of unions by both employers and many workers, as well high rates of unemployment and underemployment, combine to make organizing and collective bargaining difficult.

c. Prohibition of Forced or Compulsory Labor: The constitution prohibits forced labor. Labor for prisoners with sentences of more than two years is obligatory, but this labor may not be used as punishment for expression of political or other opinions, or as a method of political reeducation.

d. Minimum Age for Employment of Children: By law, children under the age of 14 may work only with written permission of their parents, certified by the Ministry of Labor. Though there are currently fewer than 5,000 such permits, tens of thousands of children under 14 work in both the formal sector, including agriculture, and the informal sector, generally in family enterprises. The Ministry of Labor, the Guatemalan Social Security Institute, the U.N. and various non-governmental organizations conduct programs aimed at reducing illegal child labor educating minors about their rights as workers.

e. Acceptable Conditions of Work: The constitution provides for a 44-hour normal work week and the average number of hours worked is 42.5. Occupational safety and health regulations exist but often are not strictly enforced. The minimum wage is far below the level necessary to support an urban family of four, though many urban workers earn two or three times this amount; however, not all workers are paid the legally-mandated minimum wage.

f. Rights in Sectors with U.S. Investment: Generally, international corporations adhere to the labor code and respect worker rights. There have been some complaints about treatment of workers in garment assembly factories (maquilas), especially in some of those operated by Koreans. However, observation of and respect for worker rights has improved in this sector recently, due both to increased publicity and also to cooperation between the Ministry of Labor and the Republic of Korea's Ambassador.

Extent of U.S. Investment in Selected Industries -- U.S. Direct Investment Position Abroad on an Historical Cost Basis **--** 1998

(Millions of U.S. Dollars)

Category		Amount
Petroleum		(1)
Total Manufacturing		191
Food & Kindred Products	83	
Chemicals & Allied Products	58	
Primary & Fabricated Metals	2	
Industrial Machinery and Equipment	0	
Electric & Electronic Equipment	0	
Transportation Equipment	0	
Other Manufacturing	48	
Wholesale Trade		26
Banking		5
Finance/Insurance/Real Estate		(1)
Services		5
Other Industries		(1)
TOTAL ALL INDUSTRIES		429

(1) Suppressed to avoid disclosure of data of individual companies.

Source: U.S. Department of Commerce, Bureau of Economic Analysis.